

FEDERAL PERSONNEL COUNCIL  
United States Civil Service Commission  
1626 K Street, N. W.  
Washington 25, D. C.

June 14, 1950

(Approved as attachment to report on  
"Amendment of the Leave Laws," ap-  
proved by the Council June 21, 1951.)

TO: Mrs. Ruth Henderson, Chairman  
Attendance and Leave Committee

FROM: Leave Reserve Subcommittee

SUBJECT: Leave Reserve

On December 2, 1946 the Council approved a report on possible amendment of the leave laws. A question was stated as follows:

Should a percentage or other portion of appropriated funds be transferred to a reserve account to pay off leave in lump sums on separation?

The answer was:

This subject is under study by the Procedures and Records Committee. The Subcommittee thought such a provision would be desirable if the administrative details could be effectively worked out. It would not only aid agencies in financing reductions in force and other terminations, but also would do away with the handicap which employees with large leave accumulation experience when they seek to transfer from one agency to another. The Council has several times gone on record that such employees should not be discriminated against, nor have to sacrifice their leave on transfer.

The idea of a leave reserve has been suggested not only in the Leave Committee of the Council but has been submitted by several Field Councils as one of the needed solutions to leave problems.

The Terminal Leave Problem

Many times in the last few years the Separations Committee and other Council groups have discussed the administrative difficulties caused by payments of terminal leave to those reduced in force. The necessity of taking such payments out of current appropriations increases the depth of the reduction.

For example, in one agency confronted with a budget cut at the beginning of the new fiscal year, it was found that the separation of 314 employees would be necessary to offset the amount of the actual reduction in funds but that the termination of 69 additional employees, making a total of 383 separations, would

be required in order to provide for terminal leave payments for the group (which averaged \$631.30 per employee) out of appropriations for the new fiscal year.

Further, we think that having bills of unexpected size presented to the Congress every time there is a liquidation of an agency or function -- such as the Office of the Housing Expediter -- causes an insecure feeling that the leave liability is large and unpredictable. We think, therefore, that a more systematic method should be devised across the board for making terminal leave payments on a more predicable basis.

#### Accrual Accounting for Leave

The Subcommittee found various plans for maintenance of leave on a commercial type accrual basis. T.V.A. in charging salaries and wages to specific expenditure accounts, adds a percentage to the amount of compensation to cover the annual leave earned by the employee during that period of work. Basically, the percentage rate added is computed by dividing the number of days of annual leave allowed (26 days) by the number of scheduled working days during the year. As these charges (including the percentage for annual leave) are made to the expenditure accounts, the amounts represented by the leave percentage are recorded in a liability account for employees' accumulated leave. When the employees take their annual leave their compensation for the leave period is charged against the reserve account rather than the account for the program or project on which they have been working.

In order to assure that the amount in the reserve is sufficient to cover the full liability, an inventory of leave balances of individual employees is taken twice each year, at June 30 and December 31, and any necessary adjustments made in the reserve.

The General Accounting Office has advocated a method similar to that followed by T.V.A. in recording the liability for annual leave of Government corporations.

Army Engineers uses much the same system except that the accrued leave fund is kept at about 80% of the value of leave outstanding. The National Defense Printing Shop and the instrumentalities of Farm Credit Administration are other organizations with similar systems.

#### Funding of the Total Leave Obligation

The Committee considered carefully the value and importance of maintaining a full leave reserve or a proportional leave reserve. We had the help of both budget and accounting men from Navy and also called in a number of the Bureau of the Budget staff working on the joint Bureau of the Budget, General Accounting Office accounting study. In particular we desired to be clear as to the trends in performance budgeting and constructive accounting so that we would see leave accounting in relation to these trends. We also noted that the Civil Service Retirement system does not maintain a full reserve but instead gets annual appropriations to defray the cost of annuity payments.

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Conclusions

We reached the following conclusions:

(1) That performance budgeting, accrual accounting, cost accounting, and work measurement are aspects of a general trend toward more accurate quantitative data for fiscal and other management control. Where accurate cost accounting aids management control and economy, then leave will naturally come into the cost picture like any other factor. However, to keep accurate figures for all Government establishments purely for the purpose of knowing the total leave liability does not seem a profitable expenditure of time. At no one time will more than a fraction of the total accumulated leave be paid. To maintain a full reserve would be like asking a bank to maintain full reserve on its saving deposits. Ordinarily demands for withdrawal can readily be met by maintaining a reserve of a relatively small percentage of the total obligation.

(2) Providing a means for equalizing the impingement of terminal leave is, therefore, the crux of the problem. The difficulty of terminal leave payments from year to year within any one large and diversified department could be met fairly well by various means:

A relatively small fund might be allowed to accumulate, as for instance from unobligated appropriation balances. Permission to transfer funds from one appropriation account to another would enable a large department to pay for terminal leave on a fairly large out in a few activities. Permitting payments of terminal leave to go over into the next fiscal year is another possibility.

But none of these expedients is helpful to an independent agency with only a few activities. A heavy cut or a total or partial liquidation usually necessitates an even sharper curtailment in activity or else a special appropriation to take care of terminal leave.

This problem not only affects program, administrative and budget activities, it directly affects personnel since the more people are hit the greater the shock to morale and the larger the interference with current operating activities. When a larger number of reduction in force notices have to go out than would otherwise be the case, the disruption of activities multiplies.

The goal of the Subcommittee is, therefore, to find some means by which an agency or activity affected may dip into a common Federal fund to pay terminal leave.

(3) The Subcommittee outlines the following handling of the problems:

Each agency now makes its own best guess as to the probable amount of terminal leave in the budget year for which justifications are being prepared. We suggest that these estimates be gathered up by the Bureau of the Budget, and after the usual scrutiny, be lumped together into one terminal leave appropriation. A relatively large figure for a liquidating agency would thus be only a small portion of the total sum. All lump sum leave would then be charged against that particular

appropriation. The simplest possible method of bookkeeping and control should be used. The accounts might be allocated monthly, quarterly, or otherwise. In any case, accounts should, of course, be analyzed by agency or activity to any desired degree of refinement.

Naturally the amount of the estimates would be related to the President's budget. If Congress decided to cut the budget, explanation would be comparatively simple that the amount of terminal leave required would be larger. We think it would be eminently desirable for legislation to authorize carrying over what is left in the fund from year to year. Thus, the Bureau of the Budget in preparing the estimate would have an opportunity to equalize it as much as practicable from year to year. For instance, with the date determined for liquidation of E.C.A., the amount calculated to be necessary for terminal leave might be accumulated over several years (as in fact has been the case with various large emergency agencies in the past).

This plan would require that one agency administer the terminal leave fund. The Subcommittee thinks that the most logical place for it would be the Retirement Division of the Civil Service Commission. It is a logical activity for the central personnel agency and bears a close analogy to retirement accounting. However, we do not contemplate the maintenance of individual leave records by the Civil Service Commission. Instead, each agency would be permitted to draw on the fund in some properly controlled manner, or the agency would make the payment and claim reimbursement in the aggregate from the fund.

This recommendation is made at this time as a tentative proposal. The joint study on leave to be made by the Bureau of the Budget and the Civil Service Commission at the direction of the Senate Post Office and Civil Service Committee offers a good opportunity for the review of such a proposal and also for the gathering of any data needed in connection with the idea. We recommend, therefore, that the Leave Committee present the idea to the Council for forwarding as a suggestion to the Civil Service Commission and the Bureau of the Budget.

Note 1: The S Subcommittee was composed of:

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|--------------------|--|
| N. R. Bear         | Agriculture (alternate: Max Reid)            |
| Edwin Deckard      | Veterans Administration                      |
| Charles Monroe     | General Accounting Office                    |
| J. B. Nichols      | Office of the Fiscal Director, EXOS, Navy    |
| John P. V. Worth   | Office of the Budget and Reports, EXOS, Navy |
| Mary Cushing Miles | Council staff                                |

Note 2: On June 22, 1950, the above report, after presentation at the Council, was sent to central Council members and to field Councils for study and comment. The responses were analyzed and discussed in the Subcommittee. Most comments having favored the plan, the Committee agreed to resubmit the previous report for Council approval. The Attendance and Leave Committee presented this report to the Council as an attachment to the more complete report on general revisions of the leave laws, which was approved by the Council on June 21, 1951.

Note 3: This report would be improved if it were brought to date in the light of changes in the situation since it was originally prepared.